DEEP earth

APRIL WRAPPER

OIL AND GAS

Hoima-Tanga oil pipeline: A realignment of relations

Uganda's decision to export some of its crude oil from the fields in Hoima through a pipeline to the Tanzanian port of Tanga is expected to realign some relations in East Africa – on both the diplomatic and corporate front.

Haggled over for months, the crude oil export pipeline from Uganda's fields has finally brought Tanzania closer to negotiations involving East African infrastructures, with both countries planning to complete building the pipeline by 2020.

Uganda chose Tanga partly because the terrain of the preferred crude oil pipeline route is largely flat; has few environment concerns; and does not have the hotspots that Kenya's land tenure system grapples with every year.

The route to Kenya's port of Lamu had a number of risks, the most scary of those being an attempt to build a heated pipeline across a 1.2km stretch across River Nile.

With Tanga preferred, the pipeline is likely to open the floodgates of more Tanzanian companies to venture into Uganda, bringing with them more experience of dealing in the extractives industry.

As Uganda ponders on what exactly to do with its gas reserves – the country does not have a solid plan beyond power generation. Tanzania, whose own gas resources are a continental wonder, could come in handy in exploiting the opportunities in the gas sector.

Tanzania is already contemplating on investing in Uganda's oil refinery, Irene Muloni, the minister of energy, told *Deep Earth* on the sidelines of the Northern Corridor Integration Summit in Kampala recently, with some saying it could take up an eight per cent stake from government's 40 per cent shareholding in the project.

Uganda does very little business with Tanzania, though, with the most prominent being the export of electricity, which, in 2014, was estimated to be just 55.6 GWh, according to official data. The value of Uganda's exports to Tanzania were $79.2 million in 2014, down from $90.7 million in 2013.

Kenya, on the other hand, remains bitter at the loss of the pipeline deal, after what appears a strong bond between presidents Uhuru Kenyatta and Yoweri Museveni. The country altered some sections of the feasibility study for the Hoima-Lamu route by M/s Toyota Tsusho, and was accused of slipping in some falsehoods in their negotiation reports, and underestimated some financial costs.

It is likely to rain deals as President John Pombe Magufuli's Tanzania enters Uganda's oil industry

Now, with Kenya agreeing to build its pipeline from Lokichar to Lamu, it has the challenge of negotiating with South Sudan – a country crawling under a fragile peace deal after two years of war – with whom it will build a joint pipeline. Negotiating with a South Sudanese government, most of whose ministerial appointees are skewed towards blood relations, and not technical expertise, is something that the Kenyans will have to struggle with.

The Kenya-Uganda relations are not expected to be hurt by the drama that surrounded the oil pipeline; Kenya's service providers, especially in the financial sector, deeply rooted in Uganda, and business prospects cannot be tampered at the altar of a lost pipeline deal.

On the corporate front, the joint venture partnership between Tullow Oil, Total and Cnooc, will be something to watch. Tullow, the Irish firm that has done more than any other company to de-risk the oil potential in Uganda and Kenya, had been expected to take part in Uganda's first licensing round having shown interest earlier on. It abandoned the process later on as the company realigned its interest in the country at a time France's Total lobbied heavily for the Hoima-Tanga route. Tullow preferred the Lamu route because of its exploration works in the Lokichar basin. The company continues to consider the option of reducing its stake in the region.

OIL AND GAS

President Yoweri Museveni (C) poses for a group photo with investors from RT Global Resources after the meeting at State House

Uganda nears signing of refinery deal as Russians meet Museveni

The government is almost signing a deal on the construction of the country's first oil refinery after holding discussions with investors within the Russian consortium, RT Global Resources, over the finer details of the agreement.

For at least a week in late April, the investors and government representatives were holed up in Lake Victoria Serena hotel in Lweza, nearly 20 kilometres outside the capital Kampala, trying to find common ground on negotiations that have dragged on for more than a year since a preferred bidder was chosen.

After the negotiations in Lweza, the parties met President Yoweri Museveni at State House Entebbe in a meeting that Energy Minister Irene Muloni also attended. Usually, meetings with Museveni, after months of negotiations, tend to be part of the final activities before deals are sanctioned and signed.

While making his opening remarks at the second annual oil and gas convention that the Uganda Chamber of Mines and Petroleumth organised, Elly Karuhanga, the chairman of the association, said the two parties – government and the Russian investors – were almost signing the agreement.

The impending signing of the contract on the refinery, which is expected to first have a capacity of 30,000 barrels of oil per day before ramping it up to 60,000, will put to rest worries that the negotiations were about to collapse.

The government had hoped to sign the contract on the refinery before the end of 2015, and ahead of the February general elections, in order to boost investor confidence.

A conclusion of talks over the refinery will finally create a clearer picture of the huge infrastructure that will inform Uganda's oil industry, especially now that the country has agreed with Tanzania to build a joint crude oil export pipeline to the port of Tanga. The combined cost of the pipeline and the refinery is expected to above of $8 billion.

The building of petroleum storage facilities at Buloba will also form part of the construction of the refinery.

Already, a detailed routing study and baseline environmental survey for the Hoima-Buloba multi-product pipeline is on-going. An interim report of the study was submitted and approved.

Also, a resettlement action plan study for the Hoima-Buloba multi-product pipeline is being undertaken and government has already received an inception report.

ELECTRICITY

REA to surpass $1 billion financial support target

The Rural Electrification Agency has attracted new sources of finance for its programme of electrifying as interest in putting up power plants in the countryside grows.

Godfrey Turyahikayo, the executive director, Rural Electrification Agency (REA), told *Deep Earth*, that the agency will surpass its target of attracting $1 billion well before its 10th year target.

"We were expected to get $1 billion over the next 10 years. But over the last three years, we have been able to get between $400 million and $500 million. So, certainly, over the next seven years, we will surpass that amount. Right now we have about 12 sources of financial support," he said.

The World Bank and the European Union are some of the large financiers of REA as it executes its strategic plan of 2013 - 2022.

The agency has a target of getting at least 26% of people living in rural areas connected to power, up from the 7% in 2013. And yet, one of Uganda's main issues remains the affordability of power.

Since many people in the rural areas cannot afford power, Turyahikayo said that REA had started a programme of a revolving fund where, on new lines developed, people are connected without paying anything upfront, but are required to pay back that connection charge over a period of about five years through the tariff.

REA intends to connect a minimum of about 120,000 consumers each year, up from the average 100,000. The agency is now placing a lot of focus on lighting up all the sub-country headquarters in the country. It plans to reach 17,000km of medium voltage grid extension and about 12,000km of low voltage over the next two years.

Turyahikayo said they are planning on incorporating solar energy into their system. He dispelled fears of solar power being an expensive venture to undertake, saying the unit costs have nearly halved over the last five years.

Legislators want probe on Karuma supervisor

The troubles facing the 600MW Karuma hydropower works are far from over. Members of Parliament have taken interest in the case, where the spillway section of the dam developed cracks even though half of the work is not yet complete.

In an April 2016 report, the legislators on the natural resources committee want government to "institute an investigation in how AF Consultants were procured at $111 million." Uganda Electricity Generation Company Limited (UEGCL) contracted the firm.

Technocrats at UEGCL and officials at the ministry of energy have traded accusations over poor supervision works of Karuma power dam, with some officials thought to have taken bribes. The ministry of energy also procured consultants, Energy Infratec PVT, at $7 million.

In April, a team of construction experts from the Chinese firm, Sinohydro Corporation Limited, the contractors of the Karuma dam, flew into the country from China to assess the cracks.

M/S Power Trust wind power pilot receives backlash

Uganda's attempt to produce wind power, and possibly incorporate it into the country's clean energy mix, faced a major hurdle after Members of Parliament assessing the performance of the ministry of energy found that M/S Power Trust, the company hired to carry out the pilot project, failed on most of its goals.

Government earlier awarded a contract to M/S Power Trust at a fairly-small contract of Shs 156 million ($47,200) for windmills procurement and installation.

However, the MPs, in an April 2016 report, discovered that "five out of the seven windmills installed did not have adequate batteries to save the generated energy and were not operating effectively." They then concluded: "The pilot project proved a failure majorly due to inadequate studies and designs."

The MPs urged the ministry to go back to ensure that some necessities like batteries are available.

Uganda still intends to develop wind energy as part of the country's ambition to carry out more of clean renewable energies.

There are plans to put up wind power parks in different parts of Uganda to generate a combined 100MW at a fixed tariff of $0.13 per kilowatt hour (kWh).

In November 2015, at its governing body meetings, the Climate Investment Funds under the African Development Bank endorsed Uganda's plan to transform its energy sector by promoting more of its renewable resources such as wind, solar and geothermal.

The financial support under this initiative totalled an "indicative infusion" of $50 million. Under this support, the fund approved $1.875 million as a preparation grant for Uganda's Wind Resource Map and Pilot-Wind Power Development Project.

Black Mountain boss resigns as part of Namekara transaction

Peter Landau, the smart corporate lawyer, whose vast experience in raising funds and structuring corporate deals in the extractive industries - one of which was Black Mountain Resources Limited's acquisition of the vermiculite mine in Namekara in eastern Uganda in February this year - resigned from his position of executive chairman of Black Mountain Resources on April 16. His resignation came amid accusations of financial impropriety at another firm where he was a director.

As part of the condition in the Namekara deal, where Black Mountain Resources bought the entire stake of the mine from African Phosphate Pty Limited, Landau advised the board that he was ready to resign from the company.

"Mr Peter Landau, an executive director of the company, advised that he will resign as part of the transaction on Namekara," Black Mountain Resources wrote in a note in February. Landau came good on his word in April. However, a proxy investigation into Black Mountain Resources, possibly in light with the company's association with Landau, could hamper plans to finance the mining of vermiculite in Uganda's Namekara mine.

Landau's troubles started last year when the Australian Securities and Investments Commission (ASIC) lodged investigations into his use of "investor's subscription moneys at a time when they were required by law to be held on trust." The money belonged to Continental Coal Limited, a company involved in the extractives industry. ASIC went as far as asking the Federal Court of Australia to wind up Continental Coal, on top of having Landau's passport withheld, as investigations go on.

Peter Landau

Looking into Black Mountain Resources' operation, ASIC discovered that the company did not inform the market of details of convertible note agreements it executed in 2015, which were worth $2.24 million. By doing so, ASIC says, the company "failed to comply with the accounting standards."

In late April, ASIC issued a directive that restricted Black Mountain Resources from issuing a reduced content prospectus until 22 April 2017. As a result of this directive, "Black Mountain will not be able to rely on reduced disclosure rules and must issue a full prospectus in order to raise funds from retail investors."

There is no indication to show that Black Mountain Resources is in a dire financial situation. However, a rule that requires the company to issue a full prospectus means that potential investors and shareholders will be furnished with the kind of information that might leave Black Mountain answering unsolicited questions over how it intends to finance some of its projects, such as the Namekara vermiculite mine in Mbale, 190km from the Uganda capital Kampala. The company intends to invest up to $2.5 million in capital investment at Namekara over the next two years.

ASIC's interest in Black Mountain Resources comes at a sensitive time for Uganda's potential to develop the vermiculite in Namekara, whose resource is said to be one of the finest in the world. Black Mountain also acquired the Busumbu phosphate project, which forms part the Namekara mining lease, in the deal.

Operations at Namekara have faced difficulties as a result of a mineral ban that government instituted three years ago. At one point, the company was stuck with about 1,400 tonnes of processed vermiculite concentrate worth $260,000.

Perhaps to put in perspective the impact of the mineral ban, one has to look at official government data. Production of vermiculite in Uganda dropped to 2,660 tonnes in 2014 as the mineral ban bit hard, down from 51,961 tonnes in 2012. Over the same period, the annual value of vermiculite was Shs 30 billion ($9 million at the current exchange rate) in 2012 compared to Shs 1.5 billion ($454,545) in 2014.

Black Mountain Resources is expected to turn around the fortune of Namekara. The company has promised to commission an expansion study that could see the mining of large vermiculite flakes in order to boost company sales. More than 60 per cent of the vermiculite at Namekara is in medium and large size. The company said: "no other global vermiculite producers can produce medium and large vermiculite flake in any significant commercial quantities." Vermiculite is mainly used in agriculture, where, when applied to the soils, boosts farm output.

Black Mountain Resources also noted that executives of African Phosphate Pty were in advanced negotiations with agents in Europe to find a bigger market for vermiculite.

KENYA

Kenya gets $29.5 million for geothermal energy

Kenya has received approval from the African Development Bank's Climate Investment Funds' Clean Technology Fund (CTF) for a $29.65 million concessional loan to co-finance two geothermal projects as the country cements geothermal as its main source of electricity.

The AfDB noted that the funds will help the country exploit its geothermal resources in the Menengai field.

"Kenya is already demonstrating its ability to reshape its energy future by developing its vast geothermal resources through Menengai," said Joao Duarte Cunha, AfDB's Coordinator for CTF. "But it still faces market barriers to full deployment of its renewables. This infusion of capital will thus serve to build investor confidence and improve bankability of these vital resources. Furthermore, the success of the IPPs developed in this program can serve as a beacon for other countries looking to achieve similar green energy goals."

An aerial shot of the 105MW Olkaria II geothermal power plant in Naivasha

Kenya has demonstrated that it can reduce its dependence on hydroelectricity, which is prone to droughts, and place geothermal as the main source of energy.

In February 2015, when the country commissioned Olkaria 1 and Olkaria 4 in the Rift Valley, with a combined capacity of 280MW, geothermal's contribution to the national energy mix shot up to 51%, up from just 13% in 2010. The country intends to further increase geothermal's contribution.

Swala looks to sell assets as tough oil market bites

Swala Energy will try again to sell a stake of its interest in Kenya's oil Block 12B as the company tries to ride through a difficult global environment of low oil prices.

The company issued its annual report that noted that it did not have enough information to sell a stake in Block 2B.

"We did not have a complete technical story that allowed us to farm down the 12B licence in Kenya and we shall re-try in 2016 now that we have advanced our understanding of the licence and have this understanding backed by a Competent Person's Report," the company noted.

This is not the first time that Swala has tried to reduce its exposure in Block 12B. In June 2014, Swala announced that it had sold a 25% interest in Block 12B to CEPSA Kenya Limited, an affiliate of Compañía Española de Petróleos, S.A.U, for $500,000. Its other partner, Tullow Oil Kenya, holds the remains 50 per cent. CEPSA has a 55% share in Block 11A, an onshore exploratory block in the Turkana region of north western Kenya.

As Swala looks to reduce its interest in Kenya, the company announced that it had secured an extension to the Block 12B licence that allowed it to do additional work with a relatively low outlay ahead of drilling a commitment well in 2017.

Together with Tullow Kenya BV, Swala Energy identified at least 10 leads and prospects to drill from one of those leads, Ahero – A, had been identified as a potential target.

Swala, which has placed in bids for the Kanywataba and the Taitai and Karuka oil blocks in Uganda, notes that it remains cautious of the low international oil prices that has squeezed out capital from the oil industry.

Swala has warned that its future presence in Kenya and Tanzania will depend on the outcome of the deals it is trying to execute.

"The ability of the group to continue as a going concern is dependent on the group's ability to raise funds in the future to allow continuation of the group's committed work programmes under its licences in Tanzania and Kenya. The group is progressing on a number of funding alternatives which may include equity raising or the sale or farm-down of assets. Should the group not raise funds, there will be material uncertainty that may cast significant doubt on the group's ability to continue as a going concern..." the company noted.

Goldplat bids for Teng Teng license

Goldplat, a UK mining firm, is preparing to lodge an application for a mining license at Teng Teng, which falls inside the exploration license that the company holds for its Kilimapesa gold mine.

Goldplat, which seeks to widen its footprint in Kenya, said "limited production of high grade ore from on-reef exploration at Teng Teng continued during the quarter and plans are underway to prepare for a mining licence application."

Already, the company announced that it has received approval for the Environmental Impact Assessment of the new plant it imported from Ghana, where it also operates, to beef up its work at Kilimapesa. Work is expected to start during the current quarter of the year, according to the company.

The company is looking to increasing on the 503 ounces of gold it produced during the first quarter of this year.

Goldplat's finances from its Kenya operations are still in the red; the company made a loss of £501,000 ($722,985 at the current exchange rate) for the nine months ending March 2016, although it noted that monthly losses had reduced as a result of improved gold yields.

The company has faced challenges at Kilimapesa, which it one time described as "significant." One of the challenges was the Kenyan government's stoppage of sourcing of tailings from third parties. However, Goldplat has resumed sourcing of the tailings.

TANZANIA

Orca tussles Tanesco over $75.4 million gas debts

Tanzania Electric Supply Company (Tanesco) has defaulted on a number of its debts over the gas purchases, some of which could have a potential effect on Orca Exploration Group Inc's financial books, the company that is developing the country's first gas project at Songo Songo, said.

In its just-released annual report for 2015, Orca, which realised a decline in a number of its sales ratios, noted that Tanesco payments for gas sales in 2015 "continued to be irregular." The company added: "At the end of 2014, the company reached and confirmed an understanding with Tanesco that it would only continue to supply gas if Tanesco remained current with payments for current gas deliveries."

Tanesco has continued to violate the terms of this agreement. By its last count at the end of December, Orca was demanding $75.4 million from Tanesco.

Orca operates the 879 billion cubic feet Songo Songo natural gas field, Tanzania's first development, under a Production Sharing Agreement (PSA) with the Tanzania Petroleum Development Corporation (TDPC).

Of this, 195 billion cubic feet is allocated for use by Songas Limited and 684 billion cubic feet is produced, marketed and sold by Orca Exploration.

Felichesmi Mramba, the managing director of Tanesco

Tanesco's financial health could turn for the better though after the intervention of the World Bank, the International Monetary Fund and International Finance Corporation to fund the company. The World Bank says Tanesco is now making a small profit.

Tanesco's financial health could be crucial for a country like Uganda. The Uganda Chamber of Mines and Petroleum sent out a note recently saying "Tanzania with its gas reserves in excess of 57 trillion cubic feet is planning to develop a gas pipeline to supply some of its natural gas to Uganda."

Still, Orca, the parent company of PanAfrican Energy Tanzania Limited, retains hope that Tanzania still offers strong potential for growth. The company also pointed out that it had submitted a draft gas sales agreement to Tanzania Petroleum Development Corporation to allow direct gas delivery to the country's $1.2 billion National Natural Gas Infrastructure Project (NNGIP). The NNGIP gas processing plant on Songo Songo island was expected to be able to take first gas by April 2016, Orca announced.

Peak Resources seeks $7 million for Ngualla rare earth study

Peak Resources Limited, the Australian company mining for rare earth metals at its Ngualla project in Tanzania, is looking for $7 million to complete a bankable feasibility study for its East African project and also increase its shareholding in the mine.

Peak Resources will generate the money by calling upon its shareholders to participate in a rights issue. The company is assured of getting at least $6 million from its key partner, Apian Natural Resources Fund, in this transaction should it miss its collection target.

"Appian, a substantial Peak shareholder and co-investor in the Ngualla project, has agreed to provide a loan of up to $6 million should there be any shortfall in the rights issue," Peak Resources announced in an April 26 announcement.

At the end of the transaction, Peak Resources will increase its shareholding from 62.5% to 75% in the Ngualla project. Apian will retain its 20% while the World Bank's finance arm, the International Finance Corporation, will keep its 5%. Both Apian and IFC, who Peak Resources defines as "world-class financial partners," had earlier shown their willingness to increase their stake in the project.

The bankable feasibility study, the main objective of the rights issue, is a crucial document that companies use to source for finance for their projects. AMEC Foster Wheeler was appointed as the lead engineer for the study. The study is expected to be completed in early 2017.

Peak Resources says it needs at least $300 million to develop the Ngualla project. The company defines the project as "one of the highest grade and largest rare earth deposits in the world."

The company says only 22% of the rare earth reserves at Ngualla is ore, with the rest being a mineral resource. The mine is said to have a more-than-30-year life. Rare earth elements is used in additives in the manufacturing of glass, magnets, and especially in smart phones, among others.

Bounty Oil gets first African revenues

Bounty Oil and Gas NL will generate its first revenues in Africa after the Kiliwani North gas field, where the company holds a 9.5% interest, began production on April 4.

Bounty said it will receive approximately $3.07 per million cubic feet before the well gets to full production. It anticipates its share of net cash revenues to be between $1.7 million and $2.55 million per annum.

Philip Kelso, the chief executive officer of Bounty, said this milestone places the company on the path of being an oil and gas producer in Africa.

He said: "This is a significant moment for Bounty, its shareholders and Tanzania, and is the culmination of hard work and patience by Aminex PLC and the joint venture. First gas at Kiliwani North marks the transition of Bounty from developer to producer in Africa and sets us on the path for growth as we begin to generate additional petroleum revenue."

At full production, the Kiliwani North well is expected to peak at an equivalent of nearly 5,000 barrels of oil per day.

Already, the joint venture running Kiliwani North-1, which has the UK firm Aminex, as the lead player, has already signed a gas sales agreement with Tanzania Petroleum Development Corporation, the buyer.

Bounty announced that "Kiliwani North-1 well is tied into the regional pipeline infrastructure and will deliver gas to the new adjacent Songo Songo processing plant, ultimately serving the local power market."

With this success, Bounty now says the joint venture has the confidence to explore for more gas in Tanzania, particularly the resources at Nyuni, which is located east of Kiliwani North.

PEOPLE TO WATCH

DENNIS KUSASIRA

A smart lawyer, with a deep understanding of the mining industry, Kusasira represents RT Global Resources, the Russian consortium that the government of Uganda chose to build a refinery. He is the man that has to ensure that the contractual terms are fair to the Russians.

Kusasira is a managing partner at ABMAK Advocates, a law firm that specialises in oil, gas, electricity, minerals and tax. He has also advised on Guangzhou Dongsong's development of the $620 million steel and phosphates project in Tororo.

ASHISH THAKKAR

At the African Development Bank meetings in Lusaka in late May, Uganda's Ashish Thakkar, through his Mara group, which he co-owns with former Barclays Bank Plc chief executive, Bob Diamond, will announce the launch of a renewable energy project in Zambia, in partnership with General Electric. The entry into Zambia's energy sector is expected to give Thakkar a broader view of the investment opportunities in energy, especially in East Africa, where countries are clamouring for investors.

FINISH LINE®

Uganda has made headway in its oil and gas sector after conclusion of the routing of its crude export pipeline, offering clarity to an industry that had been left guessing over two potential routes.

Also, discussions on the country's plans to build a refinery reached a climax as a delegation of Russian investors met President Yoweri Museveni at State House.

While these developments are promising, especially for an industry that had nearly come to a halt, we emphasise that the market should not get overly excited. A lot of paperwork – both for the pipeline and the refinery needs to be signed, especially on the financing. This process could take nearly another year before substantial work gets underway.

That said, the Uganda government needs to offer more clarity on the production licenses that Tullow Oil and Total applied for more than two years ago. Further delays on approving those could cause some bit of agitation in the market.

On a global scale, we took note of the collapse of the deal to have a Halliburton – Baker Hughes merger, with both companies being operators in Uganda. Regulators shot down the deal on grounds it could create unfair competition.

On a continental scale, we continue to monitor events in the international oil market, especially after Moody's downgraded Angola and Nigeria's credit rating based on the depressed oil prices. At least three Nigerian companies are vying to enter Uganda and have already handed in bids for oil licenses. A negative credit rating could make it hard for them to source for capital.

Going forward, as we had warned in the previous report of potential tension between the ruling party and the opposition ahead of President Yoweri Museveni's swearing-in, political risks, at the moment, pose the biggest threat to the investor outlook for the extractives and energy industry.

We are closely watching the kind of new cabinet Museveni will announce, and whether, as expected, there will be a change of guard at the ministry of Energy and Mineral Development.

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